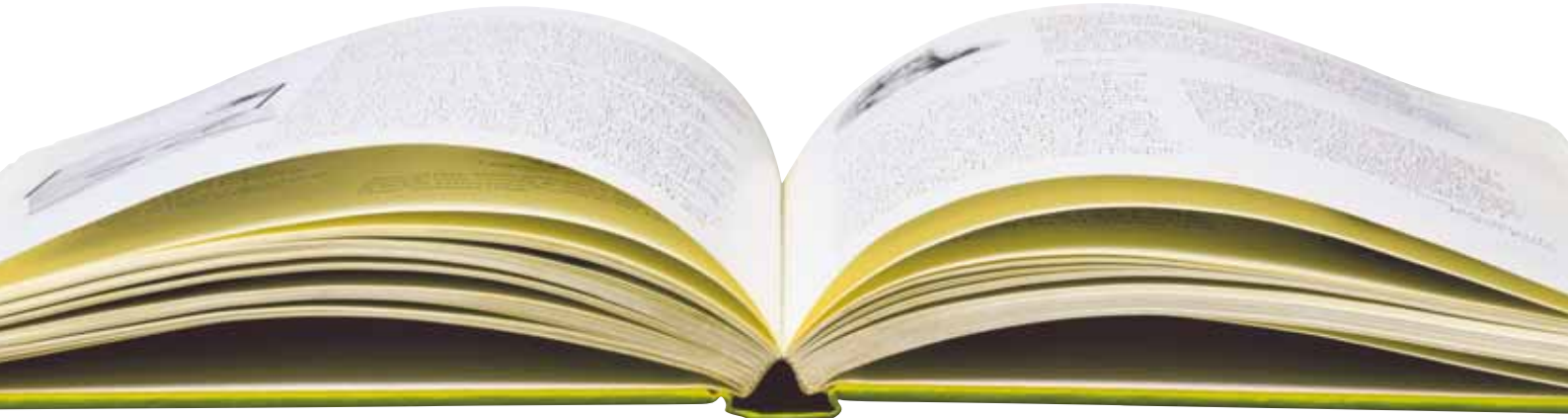




# Open Financial Reporting.

Surveying Operating and Financial Reviews  
in the Higher Education sector



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# Section 1 – Executive summary

For most of the Higher Education sector the year ended 31 July 2008 was the first year of full reporting under the new Statement of Recommended Practice 2007 ('SORP'). This new SORP brought with it several potential changes to accounting which caused Higher Education Institutions ("HEIs") to reconsider key accounting treatment of income recognition, endowments, fixed assets, heritage assets and other areas. For larger HEIs, and especially those with significant endowments, this often required extensive investigation and review of many years of historical transactions requiring a significant investment of management time and effort.

Just as important as the accounting changes, the new SORP also expanded the guidance in respect of the extent to which HEIs are expected to openly and even handedly discuss their performance, financial position, objectives, risks and plans for the future by way of an Operating and Financial Review ('OFR'). These requirements are set out in considerably more detail than was the case in the previous SORP. The form and content of the OFR is not prescribed by the new SORP, and perhaps unsurprisingly it appears that in 2008 there was a wide range of compliance in terms of the content, presentation and level of detail included by HEIs in the first year. As a very basic measure our survey sample shows that OFRs prepared for the 2008 year varied widely in terms of length (from 2 pages to 25 pages).

## So just how open are universities?

We believe that many HEIs initially underestimated the time and advanced planning needed to co-ordinate the information required for the OFR in the first year.

To comply with the spirit of the OFR guidance, information is required to be collected from many sources which represents a challenge to ensure it is internally consistent, comparable over time and fairly reflects the activities of the institution.

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To comply with the spirit of the OFR guidance, information is required to be collected from many sources ...

There is a lot of general guidance available on OFRs which has been widely applied in the corporate world for some time. It is worth remembering that HEIs vary significantly in size and scale of activities and so it is expected that there will always be a significant range of depth of discussion of the matters usually set out in an OFR. Within our sample the range of total revenue for individual HEIs was from around £10m to around £700m with the HEIs sampled having combined revenues of £7.4 billion. The HEIs selected included some relatively small and straightforward teaching focused HEIs, through to very complex research intensive universities with varied business activities and international reach.

## Looking forward

We expect that HEIs will be comparing their 2008 OFRs to those prepared by their peers and with emerging best practice within the sector as they pull together their reports for 2009. We trust that this survey will give preparers ideas for areas to review and discuss with their Directors of Finance, Vice Chancellors and Audit Committees as the sector continues to respond to pressure to improve transparency and clarity in its public reporting.

2008 will not be the end of the road in terms of OFR reporting by HEIs, rather we expect it will be seen as an important step in improving communication with the outside world. As HEIs look to develop in an uncertain world economy we expect to see further developments in OFR reporting across the sector this year, and more consistency developing between organisations with similar attributes.

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“Most HEIs have attempted to meet most of the SORP requirements but there is still some way to go before all HEIs fully meet the letter and spirit of the SORP in this area. One area that appears weak across the sector is the review of future risks.”

HEFCE July 2009/26 “outcomes for 2008”

# Section 2 – Reporting requirements

This section summarises the regulatory requirements for narrative reporting applicable to all Higher Education Institutions in the United Kingdom.

These requirements stem from the July 2007 Higher Education Statement of Recommended Practice: Accounting for Further and Higher Education ('SORP'), the provisions of which have been adopted for accounting periods ending on 31 July 2008 and thereafter.

Paragraph 24 of the SORP states that the financial statements will be published with related reports. This includes the *Operating and Financial Review* (which may also be called a treasurer's report, members' report, directors' report or report of the governing body).

Paragraphs 25-28 of the SORP provide further guidance on the *Operating and Financial Review* as follows:

**25:** The SORP Board considers that an Operating and Financial Review (OFR) should be included in the report and financial statements. This review should provide an overview of the institution's finances and operations and should follow best practice as set out in the Reporting Statement 'The Operating and Financial Review' issued by the Accounting Standards Board in January 2006. Specifically the OFR should provide a comprehensive and balanced analysis, consistent with the size and complexity of the institution, of:

- a. the development, performance and operation of the business and operation of the institution during the financial year;
- b. the position of the institution at the end of the year;
- c. the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and
- d. the main trends and factors which are likely to affect the institution's future development, performance and position.



**26:** The OFR should be produced in accordance with the following principles, in that it should:

- a. set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);
- b. focus on matters that are relevant to the interests of funders and financial supporters;
- c. have a forward-looking orientation, identifying those trends and factors relevant to the funders and financial supporters' assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;
- d. complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure;
- e. be comprehensive and understandable;
- f. be balanced and neutral, dealing even-handedly with both good and bad aspects; and
- g. be comparable over time.

**27:** The OFR should provide information to assist funders and financial supporters to assess the strategies adopted by the institution and the potential for those strategies to succeed. The key elements of the disclosure framework recommended to achieve this are, where significant:

- a. the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;
- b. the development and performance of the institution, both in the financial year under review and in the future;
- c. the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and
- d. the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.

**28:** The form and content of the OFR is not prescribed, the principles set out in paragraph 26 above set a framework for the disclosures to be provided by the governing body (or equivalent) in the OFR. The institution's governing body (or equivalent) should consider how best to use the framework to structure the OFR and the precise content, including the level of detail to be disclosed, relating to the key elements set out in paragraph 27, given the particular circumstances of the institution. Where appropriate, the form and contents may be prescribed by relevant UK legislation. For example, certain institutions are incorporated under the Companies Act and as such will have a requirement to produce a directors' report, including a business review; however, that requirement should be met if the best practice set out in the Reporting Statement is followed.

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**The OFR should provide information to assist funders and financial supporters to assess the strategies adopted by the institution and the potential for those strategies to succeed.**

# Section 3 – The survey’s objectives and basis

The main objective of this survey was to consider how the particular requirements regarding inclusion of an Operating and Financial Review have been applied by Higher Education Institutions (‘HEIs’) following implementation of the SORP.

In particular, we have considered whether HEIs have followed best practice as set out in the Reporting Statement *The Operating and Financial Review* issued by the Accounting Standards Board in January 2006 and as referred to in paragraph 25 of the SORP.

The survey was conducted by obtaining a list of Higher Education Institutions in the United Kingdom (‘UK’) from the Higher Education Statistics Agency (‘HESA’). This was reported at the time of conducting this survey to comprise 167 HEIs. The sample selected comprised 40 HEIs from this list of 167. 10 of these 40 HEIs were randomly selected from the membership of the Russell Group (i.e. 20 major research intensive Universities of the United Kingdom). Of the other remaining non Russell Group members, 30 HEIs were selected at random from the population. The requirements of the 2007 Higher Education SORP applied for the first time for periods ending on 31 July 2008 (with early adoption encouraged).

We therefore ensured that all Institutions selected were either subject to (or had decided to early adopt) these requirements.

In certain instances, we have provided results split by ‘Russell Group members’ and ‘Others’ for the interest of the reader.

We have included at Appendix 1, an Operating and Financial Review disclosure checklist which has been based on the UK Accounting Standard Board’s (ASB) *Reporting Statement: Operating and Financial Review* (RS:OFR) which was published in January 2006 as a statement of best practice on OFRs. We used this disclosure checklist in helping us to design some of the questions positioned in this survey. The checklist incorporates such matters as Objectives, Principal risks and uncertainties and Key performance indicators (KPIs).



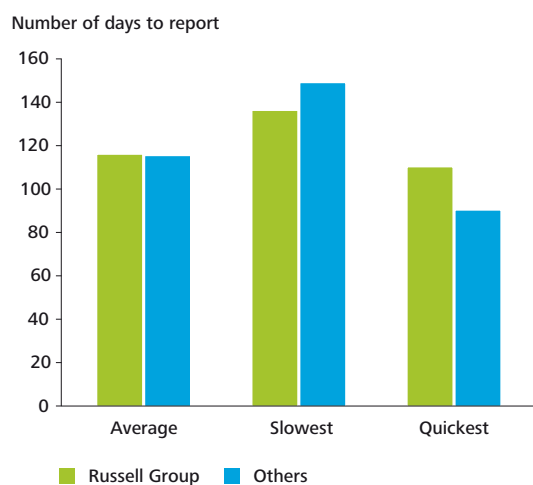
# Section 4 – Survey results

This section sets out our survey findings in respect of the objective elements of the OFR.

## 4.1 Time to report

The deadline date for submission of institutions' 2007-08 financial statements to HEFCE was 1 December 2008 which is 123 days after the 31 July 2008 year end. The average length of time taken to report was 117 days for Russell Group members and 115 days for others in our sample. The quickest and slowest lengths of time taken to report were 90 days and 148 days respectively.

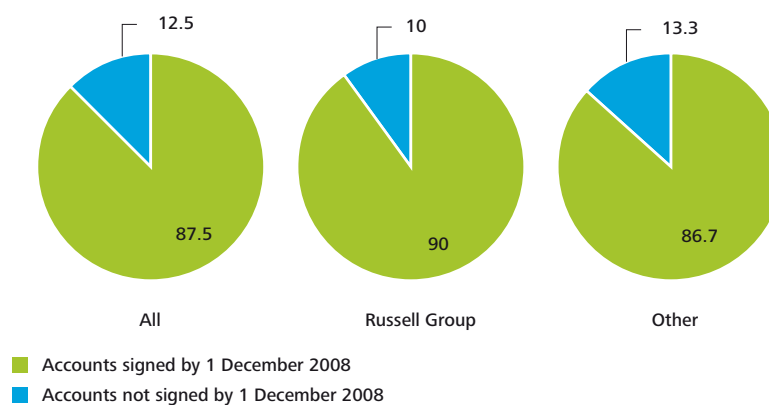
Figure 1. How quickly after the year end are financial statements signed by the Institution?



## 4.2 Making the deadline!

87.5% of HEIs in our sample signed their accounts prior to the 1 December 2008 deadline.

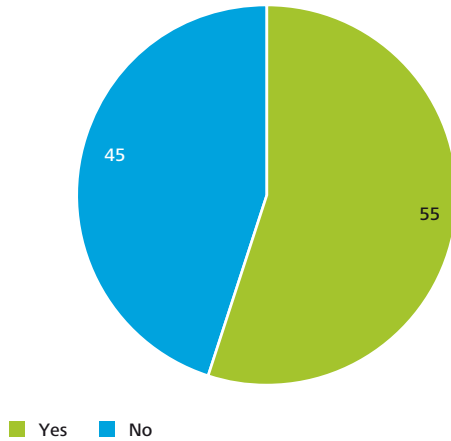
Figure 2. Making the deadline! (%)



### 4.3 Was it called an Operating and Financial Review?

The remaining 20% of HEIs surveyed chose to call their narrative report by another name (see Figure 3b).

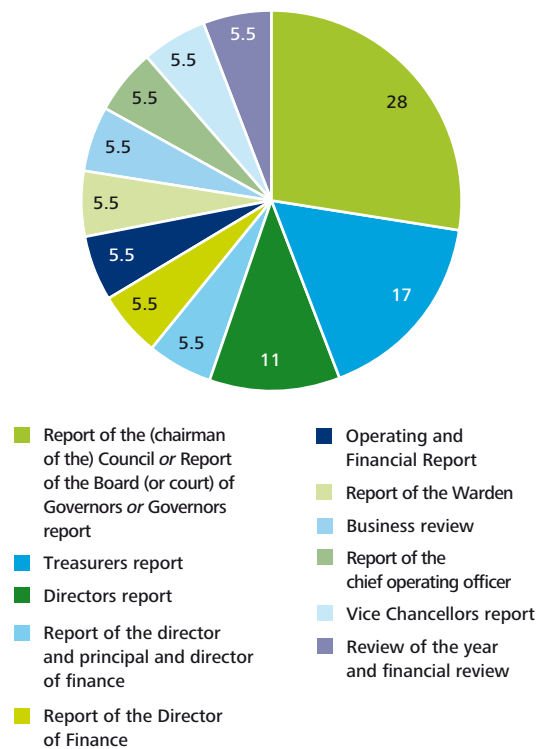
Figure 3a. Was it called an Operating and Financial Review? (%)



55% of HEIs surveyed called their narrative report an *Operating and Financial Review*. 25% of HEIs surveyed called their narrative report by one of the alternative suggested names as disclosed in the SORP; paragraph 24 of the SORP states that the narrative report may also be called a:

- treasurer’s report;
- members’ report;
- directors’ report; or
- report of the governing body.

Figure 3b. If not called an Operating and Financial Review, what was the narrative report called? (%)

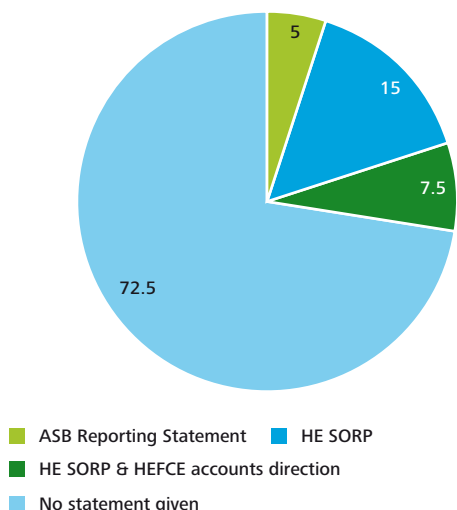


The SORP acknowledge that the ASB’s Reporting Statement (RS) on the OFR as best practice in OFR style reporting. It is of benefit to readers if governors clarify how they have prepared their OFR through inclusion of a statement of compliance.

#### 4.4 Prepared in accordance with the ASB Reporting Statement

The ASB Reporting Statement states that “as a matter of best practice” the OFR should include a statement as to whether it has been prepared in accordance with the ASB’s Reporting Statement. If the OFR does not comply with all elements of that statement, the Institution should identify and explain the relevant exceptions in their compliance. Of the 40 HEIs surveyed, only 2 HEIs stated that the narrative had been prepared in accordance with the ASB Reporting Statement. 9 HEIs made reference in the narrative to preparation in accordance with the SORP and 29 HEIs made no statement at all.

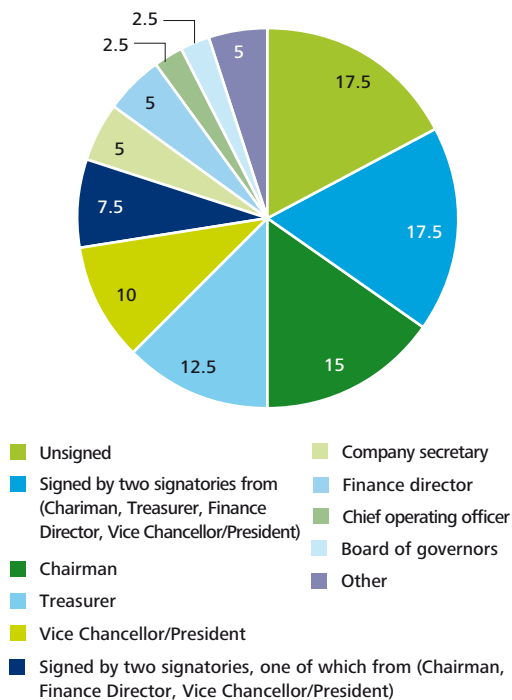
Figure 4. Preparation in accordance with the ASB reporting statement (%)



#### 4.5 Who signs the Operating and Financial Review?

The HE SORP requires no formal signatory for the Operating and Financial Review or equivalent. Of the HEIs surveyed, there was a wide variety of practice as indicated in Figure 5.

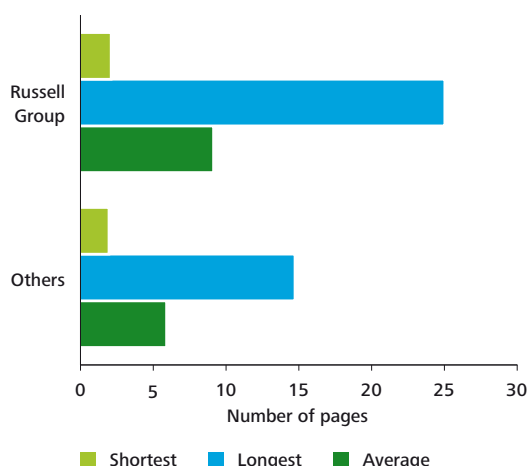
Figure 5. Who signs the OFR (or equivalent narrative report)? (%)



#### 4.6 Length of report\*

The average length of the financial statements surveyed was 51 pages. The average length of the OFR (or equivalent) surveyed was 6.8 pages. The longest report at just over 25 pages was produced by a member of the Russell group. The shortest report was just 2 pages long.

Figure 6. Length of OFR (or equivalent)



\* in order to make page length comparisons useful, we have “normalised” the results to adjust for different report layouts, paper and font sizes to give an approximate standard A4 page as a unit of measure.

#### 4.7 Aspects of the Operating and Financial Review

Our survey considered whether HEIs have disclosed information on certain matters referred to in the ASB reporting statement as well as information on some other common topics of discussion emerging from this study. Figure 7a discloses the percentage of HEIs that included text on these matters to some extent. We note that 100% of our sample included some information on financial performance in the year. In contrast, fewer than 50% of our sample included information on environmental matters.

Figure 7a. % HEIs surveyed that discussed the following areas

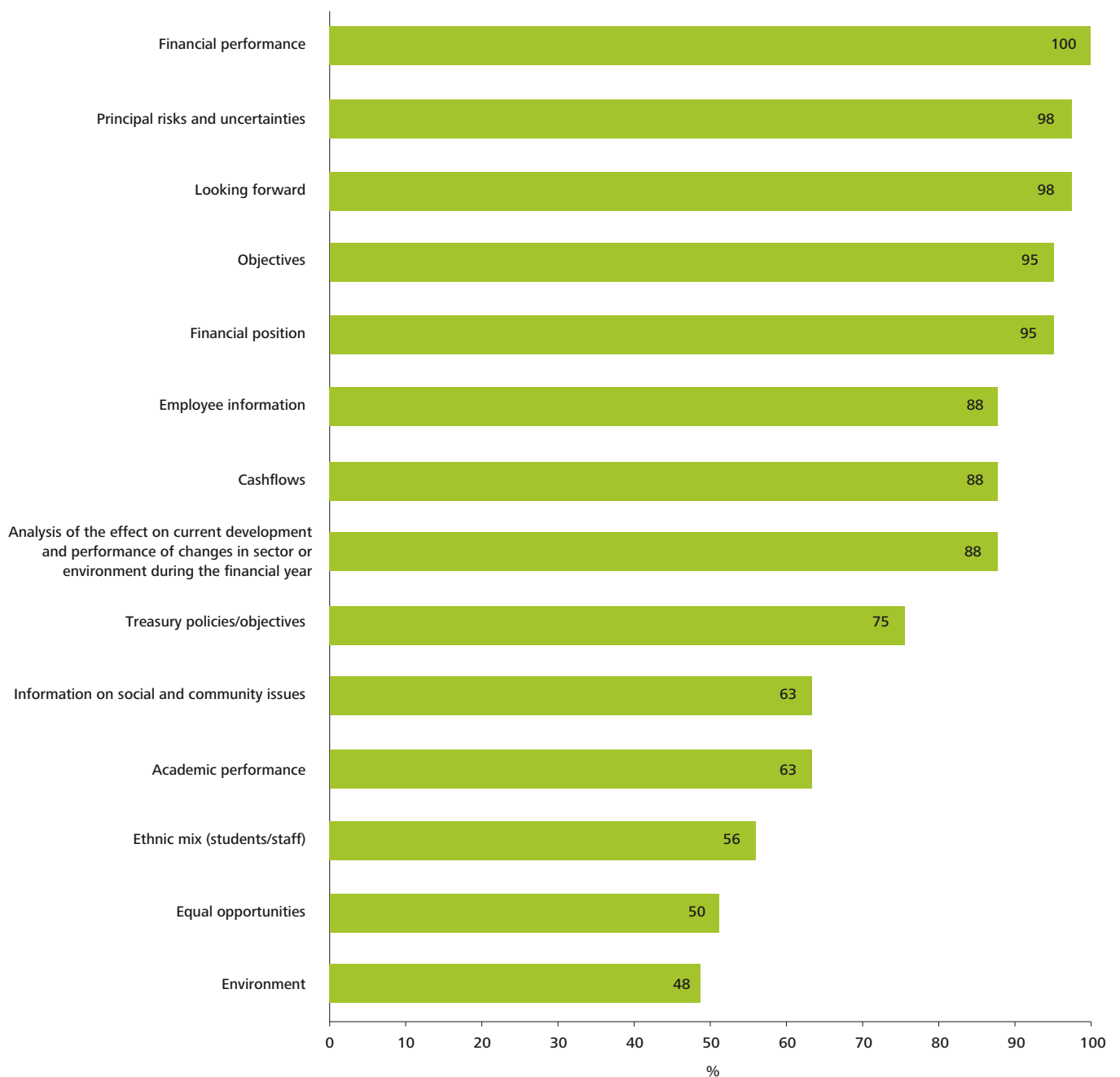
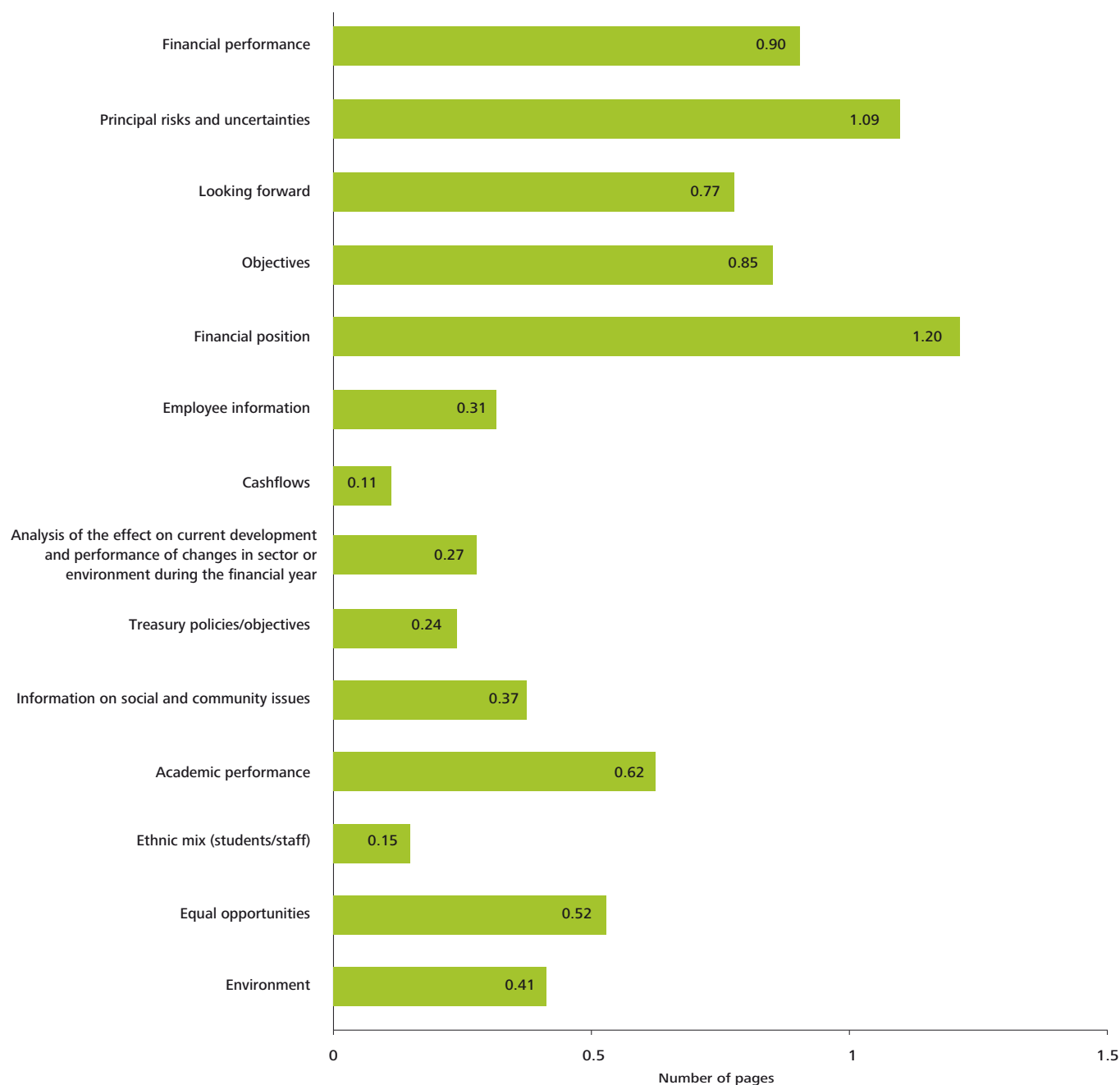


Figure 7b shows the average length by number of pages on these same aspects of the OFR. Our surveyed HEIs indicate for those that discussed financial position to some degree (95%), 1.2 pages were written about this matter on average. Conversely, of those that discussed cash flows to some degree (87.5%), only one tenth of a page was included on average.

**Figure 7b. Average number of pages on the following areas**

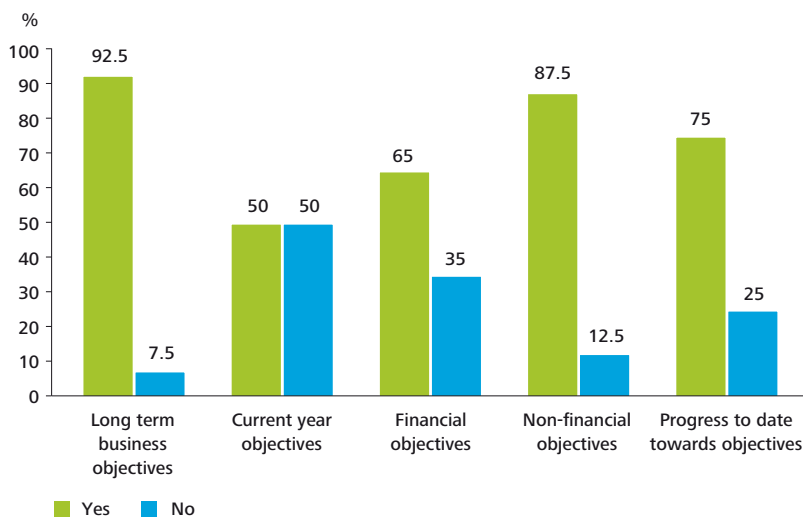


The Reporting Statement sets out a framework for the disclosures but emphasises that it should not be used as a template. The particular content of the OFR will therefore be particular to the circumstances of each HEI. We consider certain elements of the OFR in further detail below.

#### 4.8 Objectives

The OFR should discuss the objectives of the business, both current and strategic (i.e. over the longer term) and progress towards the achievement of business objectives. Objectives should include, where appropriate, non-financial as well as financial objectives. Our survey considers whether these areas are discussed to *some* degree (see Figure 8).

Figure 8. Objectives



The results show that for those HEIs that discussed objectives, approximately 0.85 pages on average were written about the subject. Most HEIs discussed long term objectives to some extent, but only half of our surveyed HEIs discussed current objectives.

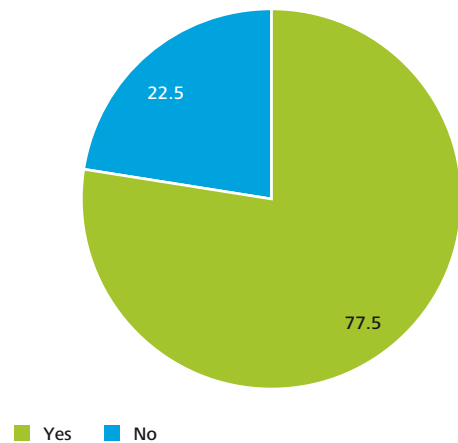
The OFR should discuss the objectives of the business, both current and strategic (i.e. over the longer term) and progress towards the achievement of business objectives.

#### 4.9 Forward looking information

All HEIs, except one, within our survey discussed forward looking information to some degree and wrote approximately three quarters of a page on average on this subject. Our results also revealed that just over 75% of the HEIs surveyed explained the uncertainties underpinning forward looking information to some degree (see Figure 9).

Figure 9. Forward looking information

Are the uncertainties underpinning forward looking information explained to some degree? (%)



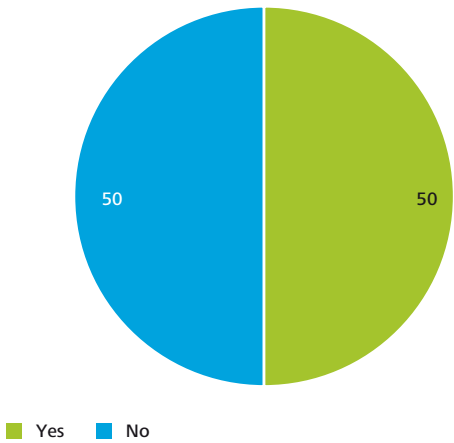
HEIs should consider including a cautionary statement in their report reminding readers to treat forward looking information with care and may even wish to take legal advice regarding suitable wording to caveat such information.

#### 4.10 Principal risks and uncertainties

A key element of the ASB Reporting Statement is the requirement to discuss “the principal risks and uncertainties facing the Institution, together with a commentary on the approach to them”. The Reporting Statement states that the full range of business risks should be considered, referring to strategic, commercial, operational and financial risks. There was a wide range of practice in the quantity and quality of information disclosed; some HEIs chose simply to list the risks and uncertainties faced whereas others included a more detailed analysis, for example, setting out how such risks were being controlled/mitigated.

We considered firstly whether our surveyed HEIs listed principal risks and uncertainties in a separate section or as a part of the wider review. Only 50% of our sample had a separate section. HEIs might want to consider whether a separate section provides greater clarity for the reader of the accounts as to the risks faced by the Institution.

**Figure 10a. Are principal risks and uncertainties listed in a separate section? (%)**



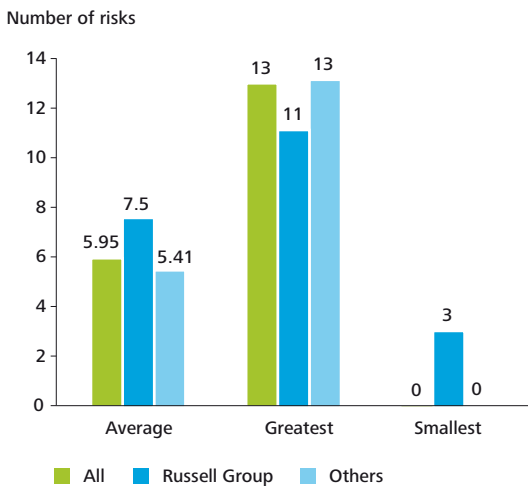
We next considered the number of principal risks and uncertainties highlighted in our surveyed HEIs.

The average number of risks highlighted across our entire sample population was 6 risks. The figure was higher for Russell Group members at between 7 and 8 risks on average.

The total number of risks ranged from 0 to 13 although only 1 Institution did not list any principal risks or uncertainties.

Just under 75% of HEIs surveyed indicated how one or more of these risks were mitigated to some degree.

**Figure 10b. Number of risks highlighted**

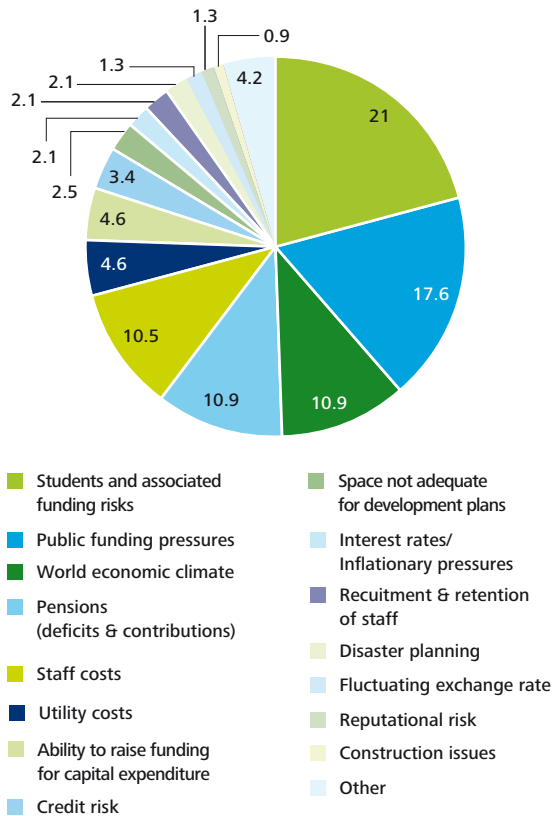


We also considered the *types* of risks being reported by the HEIs surveyed. The six top risks which comprised over 75% of the risks by frequency of occurrence were as follows:

- i. Student related risks (see below).
- ii. Public funding pressures.
- iii. World economic climate.
- iv. Pensions (deficits and contributions).
- v. Staff costs.
- vi. Utility costs.

The top category of student related risks principally included shifts in demographic trends, competition for the recruitment and retention of students, reliance on student fee income, student fee cap levels, student debt burden and student satisfaction.

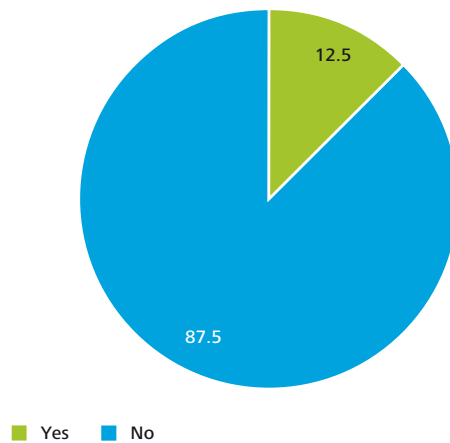
**Figure 10c. What are the types of risks? (%)**



Institutions should ensure that there is consistency between the principal risks and uncertainties disclosed in the OFR and the processes disclosed for identifying, evaluating and managing significant risks in the corporate governance statement.

Where Institutions identify and disclose a number of risks, those which are likely to have the most significant effect in the future should be clearly highlighted. However, the results of this study show that only 5 of the 40 HEIs surveyed identified what they considered to be their 'Number 1' risk.

Figure 10d. Number 1 risk identified? (%)



#### 4.11 Key performance indicators (KPIs)

The ASB Reporting Statement states that key performance indicators (KPIs), judged to be effective in measuring the development, performance and position of the business of the Institution, should be disclosed. The Reporting Statement defines KPIs as being “quantified measurements that reflect the critical success factors of an entity and disclose progress towards achieving a particular objective or objectives”. The Reporting Statement suggests that for each KPI disclosed in the OFR, the following should be given for members to be able to understand the KPI:

- a) the definition of the KPI and its calculation method;
- b) its purpose;
- c) the source of the underlying data;
- d) an explanation of any assumptions used;
- e) quantification or commentary on future targets;
- f) where information from the financial statements has been adjusted for inclusion in the OFR, that fact is highlighted and a reconciliation provided;
- g) where available, the corresponding amount for the financial year immediately preceding the current year is disclosed; and
- h) any changes to KPIs.

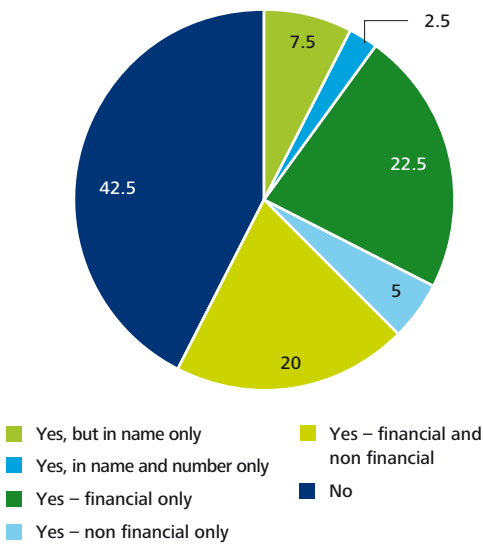
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The reporting statement defines KPIs as being “quantified measurements that reflect the critical success factors of an entity and disclose progress towards achieving a particular objective or objectives”.

The results of our survey in this area reveal that only 23 of the 40 HEIs surveyed mention KPIs to *some* degree and only 8 of these cite both financial and non financial KPIs.

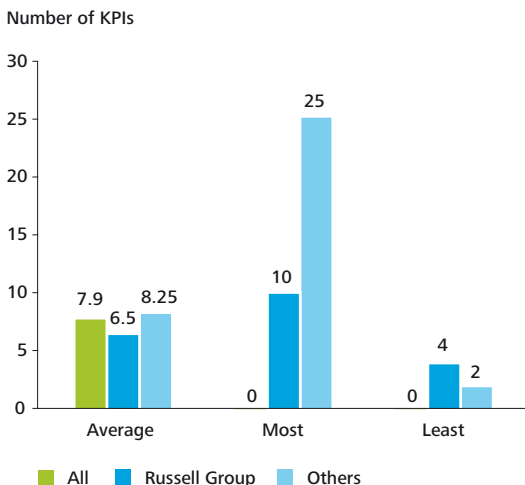
Our surveyed HEIs were also inspected for compliance with criteria {a} – {g} above (criterion {h} was not considered) for those 19 HEIs that listed their KPIs. These results are shown in Figure 11c.

**Figure 11a. Are KPIs discussed? (%)**

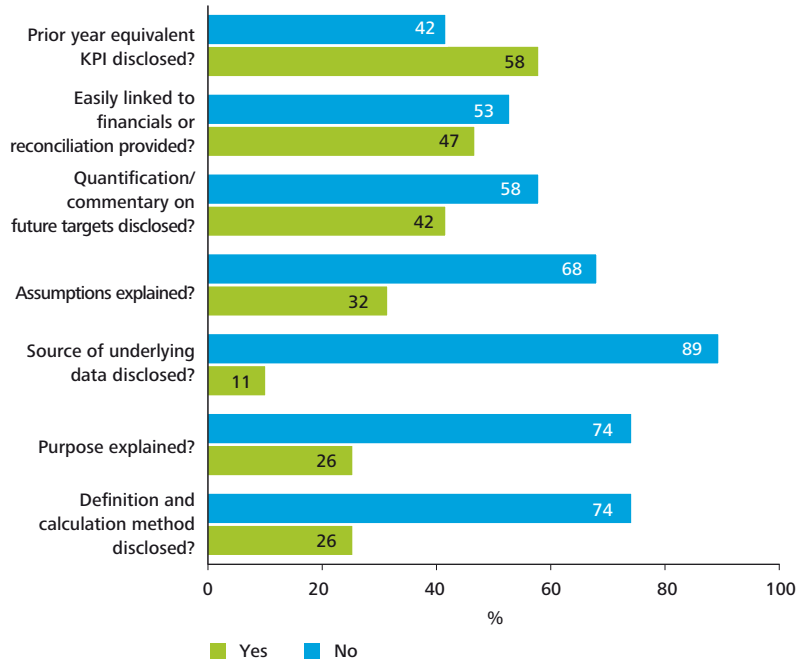


For those that reported KPIs, the average number was 8. The total number of KPIs ranged from 4 to 10 for Russell Group members and from 2 to 25 for other HEIs. Generally, where there were a higher number of KPIs disclosed (e.g. 25), no additional detail was provided (i.e. the KPIs were disclosed in name only).

**Figure 11b. Number of KPIs reported**



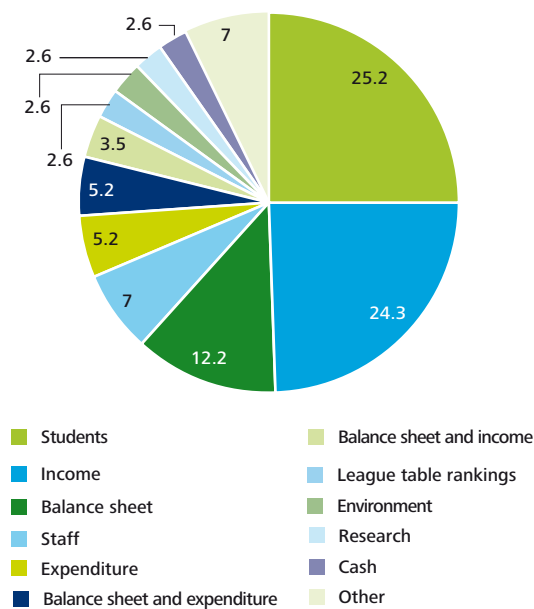
**Figure 11c. Compliance with the reporting statement disclosures for KPIs (%)**



It was noted that by frequency of occurrence, the most commonly listed KPIs were in the areas of students and income.

The top category of students principally included KPIs around student numbers, student satisfaction surveys and student employability. The second highest category, income, principally included KPI's around surplus as a proportion of total income and other income streams as a proportion of total income.

**Figure 11d. Areas covered by KPIs (%)**



KPIs should be those measures used by entities to monitor their performance against their objectives. Targets should be set for the KPIs to identify whether the strategies adopted by entities to meet the objectives are appropriate.

#### Steps for identifying KPIs for reporting in OFR

1. Identify KPIs used by the governing body and executive management to measure the delivery of their strategies and to manage their business effectively.
2. Review those KPIs commonly used and accepted in the Higher Education sector to consider whether these carry additional weight (due mainly to increased comparability). This includes reviewing reports of similar HEIs to see what and how they are reporting in terms of their KPIs.

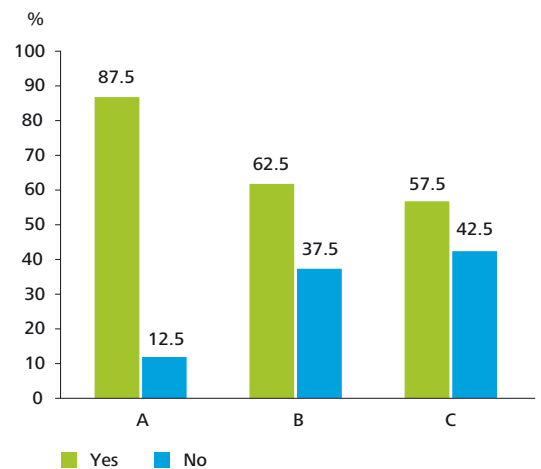
3. Decide which KPIs from 1. and 2. above are most appropriate for inclusion in the OFR. The interests of members and the usefulness to them of each KPI should be given due consideration at this stage.

4. Review chosen KPIs for non-financial measures and if none selected, consider whether one or more non-financial KPIs should be included.

#### 4.12 Investment expenditure

The OFR should analyse the main trends and factors that directors consider likely to impact future prospects. This survey considers whether the OFR discusses current level of investment expenditure together with planned future expenditure and whether the OFR explains how investment expenditure assists with the achievement of business objectives.

**Figure 12. Investment expenditure**

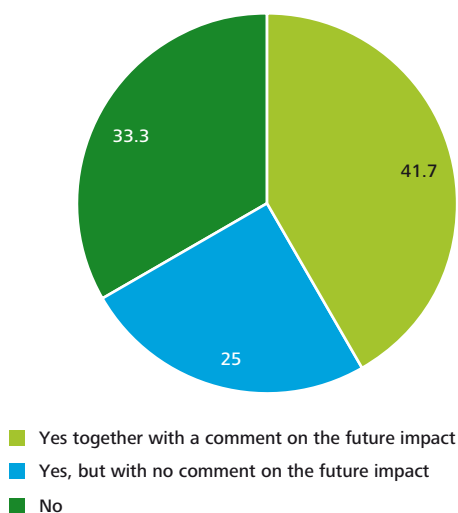


- A. Current level of investment expenditure discussed to some extent?
- B. Future level of investment expenditure discussed to some extent?
- C. Does the narrative explain how this investment expenditure assists the achievement of business objectives?

#### 4.13 Post balance sheet events

The OFR should have a forward looking orientation. Our study considered whether the OFR commented on the impact of future performance of significant events after the balance sheet date (see Figure 13).

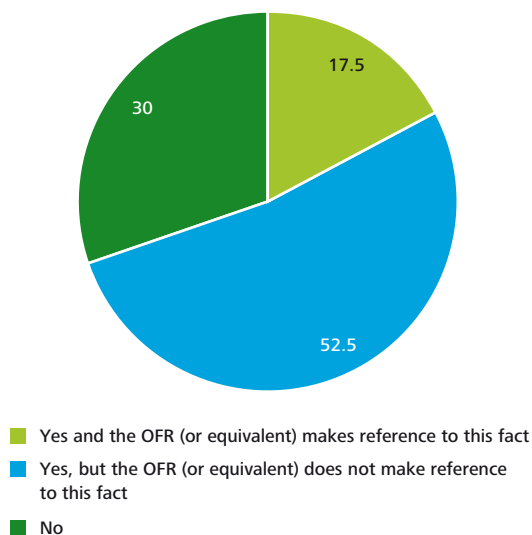
**Figure 13. Where there were significant post balance sheet events, were these referred to in the OFR? (%)**



#### 4.14 Prior year restatements

The OFR should contain an analysis of the financial position of the entity including commentary on events that have impacted the financial position of the entity during the financial year. With the introduction of the Higher Education SORP for accounting periods ending 31 July 2008, many HEIs were obliged to restate their accounts. We have considered the disclosure of this impact in the OFR for our surveyed HEIs (see Figure 14).

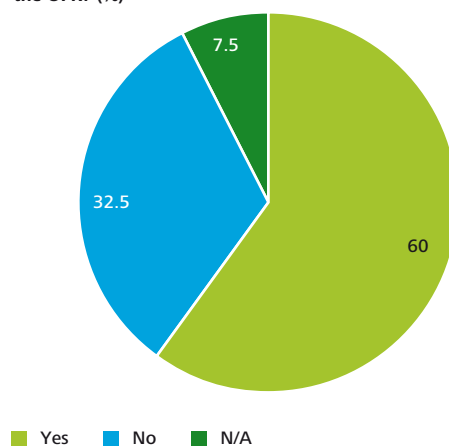
**Figure 14. Have the prior year accounts been restated? (%)**



#### 4.15 Subsidiaries, associates and joint ventures

As part of the analysis of the business, the Institution should include disclosure of appropriate elements of information used in managing the entity including disclosure of its undertakings (see Figure 15).

**Figure 15. Does the HEI disclose its undertakings within the OFR? (%)**



With the introduction of the Higher Education SORP for accounting periods ending 31 July 2008, many HEIs were obliged to restate their accounts. We have considered the disclosure of this impact in the OFR for our surveyed HEIs.

#### 4.16 Graphs and tables

The OFR should be comprehensive and understandable. The use of graphs and tables can assist in adding clarity to the narrative elements of an OFR. Of the HEIs surveyed 42.5% use one or more graphs to aid the reader of the accounts in their understanding of events (see figure 16a). Graphs were principally used to show trends, types, sources and ratios for income and expenditure (see Figure 16b).

Figure 16a. Does the HEI display any graphs in its OFR? (%)

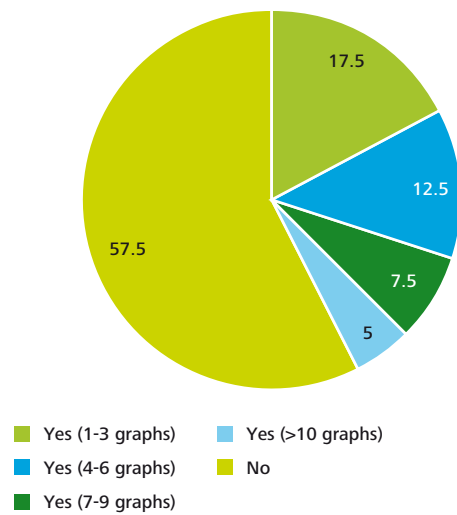
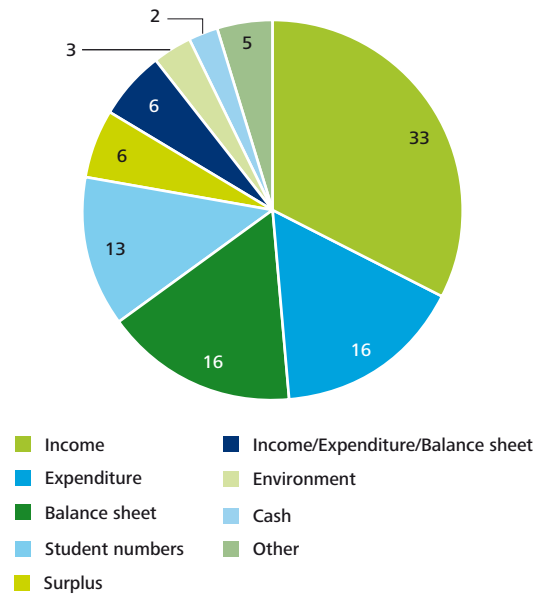


Figure 16b. What areas do these graphs (showing trends/types/sources/ratios) cover? (%)



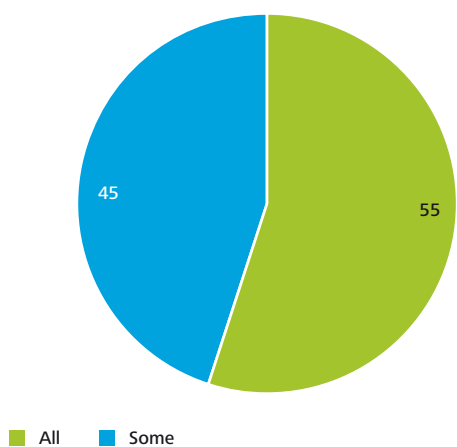
The HEIs surveyed also made use of tables. Tables were principally used to provide information about a) key movements in the year and b) key performance indicators.

Of the HEIs surveyed 42.5% use one or more graphs to aid the reader of the accounts in their understanding of events.

#### 4.17 Clarity within the OFR

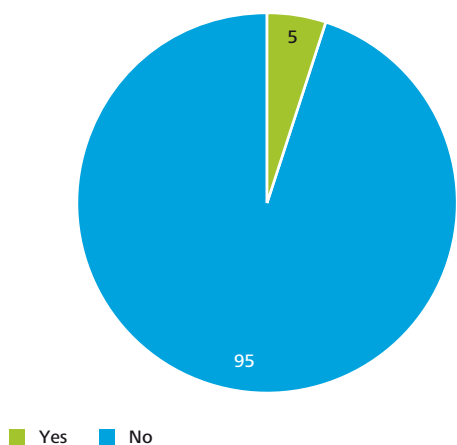
Acronyms should be explained so that the OFR can be appropriately understood. We noted that 45% of HEIs surveyed explained only some (rather than all) acronyms used (see Figure 17a).

Figure 17a. Are 'all' or 'some' acronyms explained to some degree? (%)



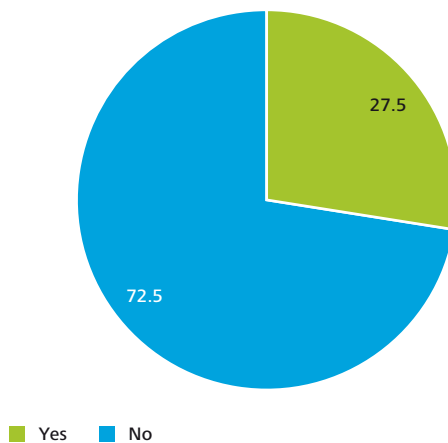
Only 2 of the surveyed HEIs contained a glossary.

Figure 17b. Do the accounts contain a glossary? (%)



Only 27.5% of surveyed HEIs made use of cross referencing from the OFR to the financial statements.

Figure 17c. Is cross referencing used from the OFR to the financial statements? (%)



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We noted that 45% of HEIs surveyed explained only some (rather than all) acronyms used.

# Appendix 1 – Operating and financial review disclosure checklist

This disclosure checklist is based on the UK Accounting Standards Board's (ASB) "Reporting Statement: Operating and Financial Review" (RS:OFR) which was published in January 2006 as a statement of best practice on OFRs.

Paragraphs in shaded boxes state the main principles and elements of the disclosure framework, as set out in RS:OFR. These may be used to assist in drafting the OFR, with non-shaded sections used as a check on the completed OFR. This checklist should be read in conjunction with the HE SORP, as set out in pages 2 and 3 of this report.

1. Principles	RS:OFR reference	Yes/No
<b>1.1 Purpose</b>		
The OFR should set out an analysis of the business through the eyes of the board of governors.	4	
The appropriate elements of information used in managing the entity, including its subsidiary undertakings are disclosed.	5	
Where appropriate, gives greater emphasis to those matters which are significant to the entity and its subsidiary undertakings taken as a whole. Such matters may include issues specific to business segments where relevant to the understanding of the business as a whole.	5	
<b>1.2 Audience</b>		
The OFR should focus on matters that are relevant to the interests of members.	6	
The governors have considered the extent to which they report on matters primarily of significance to other users (e.g. other investors, potential investors, creditors, customers, suppliers, employees and society more widely) where because of those issues influence on the performance of the business and its value, they are also of significance to members.	7	
<b>1.3 Time-frame</b>		
The OFR should have a forward-looking orientation, identifying those trends and factors relevant to the members' assessment of the current and future performance of the business and the progress towards the achievement of long-term business objectives.	8	
The factors discussed are those that have affected development, performance, and position during the financial year and those which are likely to affect the entity's future development, performance and position.	9	
Given the nature of some forward-looking information, in particular elements that cannot be objectively verified but have been made in good faith, governors may want to include a statement in the OFR to treat such elements with caution, explaining the uncertainties underpinning such information.	10	
<b>Although statutory protection has been introduced by the Companies Act 2006 in respect of disclosures made in good faith in inter alia the governors' report, the UK does not have a statutory safe harbour provision applying to the whole annual report. US registrants will be familiar with the disclaimer wording used in Management's Discussion and Analysis (MDA) to highlight forward-looking information. Similar wording may be appropriate in the OFR. This is an area in which it may be appropriate to consider taking legal advice.</b>		
No disclosure of information about impending developments or about matters in the course of negotiation should be made if the disclosure would, in the opinion of the governors, be seriously prejudicial to the interests of the entity.	79	
The OFR comments on the impact on future performance of significant events after the balance sheet date.	11	
The OFR discusses predictive comments, both positive and negative, made in previous reviews and whether or not these have been borne out by events.	12	
<b>1.4 Content</b>		
The OFR should complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure.	13	
The OFR provides useful financial and non-financial information about the business and its performance that is not reported in the financial statements but which, the governors judge, might be relevant to the members' evaluation of past results and assessment of future prospects.	14	
Where relevant the OFR provides additional explanations of amounts recorded in the financial statements.	15	
Where relevant the OFR explains the conditions and events that shaped the information contained in the financial statements.	15	
Where amounts from the financial statements have been adjusted for inclusion in the OFR, that fact is highlighted and a reconciliation has been provided.	15	

1. Principles (continued)	RS:OFR reference	Yes/No
1.5 Comprehension The OFR should be comprehensive and understandable.	16	
The governors have considered whether the omission of information might reasonably be expected to influence significantly the assessment made by members.	17	
When preparing the OFR, the governors have focused on the objective of quality, not quantity.	18	
Where relevant, an explanation has been provided of the source of the information and the degree to which the information is objectively supportable to allow members to assess the reliability of the information presented.	19	
Where additional information is discussed elsewhere in the annual report, or in other reports, this information has been cross-referenced to those sources to assist members. The governors have considered the key issues to include in the OFR that will provide members with focused and relevant information.	20	
The OFR should be written in a clear and readily understandable style.	21	
1.6 Balance The OFR should be balanced and neutral, dealing even-handedly with both good and bad aspects.	22	
The governors should ensure that the OFR retains balance and that members are not misled as a result of the omission of any information on unfavourable aspects.	23	
1.7 Comparability The OFR should be comparable over time.	24	
Disclosure is sufficient for the members to be able to compare the information presented with similar information about the entity for previous financial years.	25	
Governors have considered the extent to which the OFR is comparable with reviews prepared by other entities in the same industry or sector.	25	
<b>2. Disclosure Framework</b>		
The governors have considered how best to use the framework and key content elements in the Reporting Statement to structure the OFR as a whole and its precise content, including the level of detail to be disclosed, given the particular circumstances of the entity. These circumstances may include:	26	
(a) the industry or industries in which it operates;		
(b) the range of products, services or processes it offers; and		
(c) the number of markets it serves.		
2.1 The OFR should provide information to assist members to assess the strategies adopted by the entity and the potential for those strategies to succeed. The key elements of the disclosure framework recommend to achieve this are:	27	
(a) the nature, objectives and strategies of the business, including a description of the market, competitive and regulatory environment in which the entity operates;		
(b) the development and performance of the business, both in the financial year under review and in the future;		
(c) the resources, principal risks and uncertainties and relationships that may affect the entity's long-term value; and		
(d) the position of the business including a description of the capital structure, treasury policies and objectives and liquidity of the entity, both in the financial year under review and the future.		
2.2 To the extent necessary to meet the recommendations set out in 2.1 above the OFR should include information about:	28	
(a) environmental matters (including the impact of the business of the entity on the environment);		
(b) the entity's employees;		
(c) social and community issues;		
(d) persons with whom the entity has contractual or other arrangements which are essential to the business of the entity;		
(e) receipts from, and returns to, members of the entity in respect of shares held by them; and		
(f) all other matters that governors consider to be relevant.		

2.	Disclosure Framework (continued)	RS:OFR reference	Yes/No
2.3	For items (a) to (c) in 2.2 above, the OFR should, in particular, include:  (a) the policies of the entity in each area mentioned; and  (b) the extent to which those policies have been successfully implemented.	29	
3.	<b>The nature, objectives and strategies of the business</b>		
3.1	The OFR should include a description of the business and the external environment in which it operates as context for the governors' discussion and analysis of performance during the financial year and financial position.	30	
	The description of the business provides members with an understanding of the industry or industries in which the entity operates, its main products, customers, business processes and distribution methods, the structure of the business, and its economic model, including an overview of the main operating facilities and their location(s).	31	
	Where relevant, the OFR includes discussion of matters such as the entity's major markets and competitive position within those markets and the significant features of the legal, regulatory, macro-economic and social environment that influence the business.	32	
3.2	The OFR should discuss the objectives of the business to generate or preserve value over the longer-term.	33	
	Where appropriate, objectives in non-financial areas are discussed in addition to financial objectives.	34	
	The governors have determined an appropriate time perspective for reporting in the OFR based on the nature of the industry within which they work.	35	
3.3	The OFR should set out the governors' strategies for achieving the objectives of the business.	36	
	Governors' strategies have been disclosed so that members can assess the current and past action undertaken by governors in respect of the stated objectives.	37	
3.4	To the extent necessary to meet the requirements set out in 2.1 above, the OFR should include the key performance indicators (KPIs), both financial and, where appropriate, non-financial (including information relating to and, where appropriate, non-financial (including information relating to environmental and employee matters), used by the governors to assess progress against their stated objectives.	38	
	The KPIs disclosed are those that the governors judge are effective in measuring the delivery of their strategies and managing their business.	39	
	Where available, the governors have used KPIs accepted and widely used either within the industry sector or more generally.	40	
3.5	Governors should also consider the extent to which other measures and evidence should be included in the OFR.	41	
	Where appropriate, the governors have included narrative evidence describing how they manage the business or quantified measures used to monitor the entity's external environment and/or progress towards the achievement of its objectives.	42	
4.	<b>Current and future development and performance</b>		
4.1	The OFR should describe the significant features of the development and performance of the business in the financial year covered by the financial statements, focusing on those business segments that are relevant to an understanding of the development and performance as a whole.	43	
	The trends and factors in development and performance as suggested by an analysis of the current and previous financial years have been highlighted. Development and performance are described in the context of the strategic objectives of the business.	44	
	The OFR covers significant aspects of the statements of financial performance and where appropriate is linked to other aspects of performance.	45	
	The OFR sets out the governors' analysis of the effect on current development and performance of changes during the financial year in the industry or the external environment in which the business operates and of developments within the business itself.	46	

4.	Current and future development and performance (continued)	RS:OFR reference	Yes/No
4.2	The OFR should analyse the main trends and factors that governors consider likely to impact future prospects.	47	
	The OFR discusses the current level of investment expenditure together with the planned future expenditure and explains how that investment is directed to assist the achievement of business objectives.	48	
	Any assumptions underlying the main trends and factors above have been disclosed.	48	
	Governors have considered the potential future significance of issues in deciding whether or not to include an analysis of them in the OFR.	49	
5.	Resources		
5.1	The OFR should include a description of the resources available to the entity and how they are managed.	50	
	The OFR sets out the key strengths and resources, tangible and intangible, available to the business, which will assist it in the pursuit of its objectives and, in particular, includes those items that are not reflected in the balance sheet.	51	
	Depending on the nature of the business, these may include: reputation and brand strength; natural resources; research and development; intellectual capital; licences, patents, copyright and trademarks; employees; and market position.		
6.	Principal risks and uncertainties		
6.1	The OFR should include a description of the principal risks and uncertainties facing the entity, together with a commentary on the governors' approach to them.	52	
	The strategic, commercial, operational and financial risks are disclosed where these may significantly affect the entity's strategies and development of the entity's value.	53	
	The description of the principal risks and uncertainties covers both the exposure to negative consequences as well as potential opportunities. The governors' policy for managing principal risks is disclosed.	55	
	The OFR covers the principal risks and uncertainties necessary for an understanding of the objectives and strategies of the business, both where they constitute a significant external risk to the entity, and where the entity's impact on other parties through its activities, products or services, affects its performance.	56	
	Governors have considered the full range of business risks.	56	
7.	Relationships		
7.1	To the extent necessary to meet the requirements set out in 2.1 above, the OFR should include information about significant relationships with stakeholders other than members, which are likely, directly or indirectly, to influence the performance of the business and its value.	57	
	The governors in deciding what to include, have considered the extent to which the actions of stakeholders other than members, can affect an entity's performance and thus its value.	58	
	Where necessary for an understanding of the business, the OFR should describe receipts from, and returns to, shareholders in relation to shares held by them. This should include a description of any distributions, capital raising and share repurchases.	59	
8.	Financial position		
8.1	The OFR should contain an analysis of the financial position of the entity.	60	
	The analysis, whilst based upon the financial statements, comments on the events that have impacted the financial position of the entity during the financial year, and future factors that are likely to affect the financial position going forward. The analysis should supplement FRS25 disclosures.	61	
	The OFR highlights accounting policies set out in the notes to the financial statements and discusses those accounting policies that are critical to an understanding of the performance and financial position of an entity, focusing on those which have required the particular exercise of judgement in their application and to which the results are most sensitive.	62	
	The OFR draws attention to accounting policies changed during the financial year under review.	62	

8.	Financial position (continued)	RS:OFR reference	Yes/No
8.2	The OFR should contain a discussion of the capital structure of the entity.	63	
	The discussion includes comments on short and longer-term funding plans to support the governors' strategies to achieve the entity's objectives.	64	
	The discussion includes comment on why the entity has adopted its particular capital structure.	64	
8.3	The OFR should set out the entity's treasury policies and objectives.	65	
	The OFR discusses the implementation of these treasury policies in the financial year under review.	66	
	The purpose and effect of major financing transactions undertaken up to the date of approval of the financial statements is explained.	67	
	The effect of interest costs on profits and the potential impact of interest rate changes is also discussed.	67	
9.	Cash flows		
9.1	The OFR should discuss the cash inflows and outflows during the financial year under review, along with the entity's ability to generate cash, to meet known or probable cash requirements and to fund growth.	68	
	The discussion of cash flows supplements the information in the financial statements. Comments might include:	69	
	(a) special factors influencing cash flows in the current financial year and those that may have significant effect on future cash flows; and		
	(b) the existence and timing of commitments for capital expenditures and other known or probable cash requirements.		
	Where entities have cash that is surplus to future operating requirements and current levels of distribution, the discussion includes future plans for making use of the excess cash.	69	
	Where segmental cash flows are significantly out of line with segmental revenues or profits, it is indicated and explained.	70	
10.	Liquidity		
10.1	The OFR should discuss the entity's current and prospective liquidity. Where relevant, this should include commentary on the level of borrowings, the seasonality of borrowing requirements (indicated by the peak level of borrowings during that period) and the maturity profile of both borrowings and undrawn committed borrowing facilities.	71	
	The ability of the entity to fund its current and future operations and stated strategies is discussed.	72	
	Internal sources of liquidity are discussed and reference is made to any restrictions on the ability to transfer funds from one part of the group to meet the obligations of another part of the group, where these represent, or might foreseeably come to represent, a significant restraint on the group. Such constraints include exchange controls and taxation consequences of transfers.	73	
	Where the entity has entered into financing contracts with covenants with lenders which could have the effect of restricting the use of credit facilities, this is disclosed. Negotiation with the lenders on the operation of these covenants that are taking place or expected to take place is also discussed.	74	
	Where a breach of a covenant has occurred or is expected to occur, details are given of the measures taken or proposed to remedy the situation.	74	

11. Key Performance Indicators (KPIs)	RS:OFR reference	Yes/No
11.1 An entity should provide information that enables members to understand each KPI disclosed in the OFR.	75	
The following information is provided for each KPI disclosed in the OFR:	76	
(a) the definition and its calculation method is explained;		
(b) its purpose is explained;		
(c) the source of underlying data is disclosed and, where relevant, assumptions explained;		
(d) quantification or commentary on future targets is provided;		
(e) where information from the financial statements has been adjusted for inclusion in the OFR, that fact is highlighted and a reconciliation provided;		
(f) where available, the corresponding amount for the financial year immediately preceding the current year is disclosed; and		
(g) any changes to KPIs are disclosed and the calculation method used compared to previous financial years, including significant changes in the underlying accounting policies adopted in the financial statements, is identified and explained.		
<b>12. Other performance indicators</b>		
The following information for any quantified measure, other than a KPI, used in the OFR is provided:	78	
(a) the definition and its calculation method; and		
(b) where available, corresponding amount for the financial year immediately preceding the current year.		
<b>13. Statement of compliance</b>		
A statement as to whether the OFR has been prepared in accordance with the ASB Reporting Statement and particulars of, and reasons for, any departure is included as a matter of best practice.	80	
<b>14. Definitions</b>		
<b>Key Performance Indicators (KPIs)</b> KPIs are factors by reference to which the development, performance or position of the business of the entity can be measured effectively. They are quantified measurements that reflect the critical success factors of an entity and disclose progress towards achieving a particular objective or objectives.	3	
<b>Operating and Financial Review (OFR)</b> An OFR is a narrative explanation, provided in the annual report, of the main trends and factors underlying the development, performance and position of an entity during the financial year covered by the financial statements, and those which are likely to affect the entity's future development, performance and position.	3	

# Appendix 2 – Contacts and other publications

Deloitte would be pleased to advise on specific application of the principles set out in the SORP. General advice within this report cannot be relied upon to cover specific situations; application will depend on the particular circumstances involved. If you would like further, more detailed information or advice, or would like to meet with us to discuss any current issues for your Institution, please contact us.

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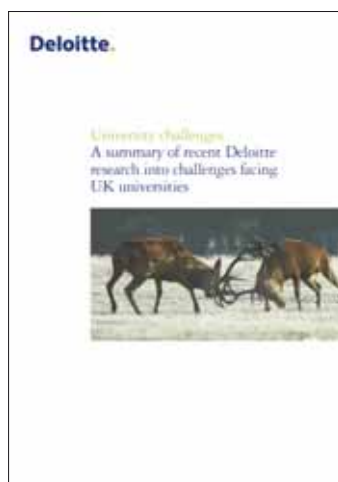
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## Other recent HEI publications



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